DOCUMENT RESUME

ED 181 787 HE 012 174

AUTHOR Bogue, E. Grady: Troutt, William E.
TITLE Allocation of State Funds on a Performance Criterion: Acting on the Possible While Awaiting Perfection.
PUB DATE 77
NOTE 12p.; Paper presented at the Association for Institutional Research Forum (1977); for related documents, see HE 012 172 and HE 012 175

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Accountability; Educational Assessment; Educational Finance; Educational Objectives; Evaluation Criteria; *Higher Education; *Institutional Evaluation; *Performance Criteria; Pilot Projects; Program Descriptions; *Resource Allocations; School Funds; State Agencies; *State Aid; State Colleges; State Standards
IDENTIFIERS *Formula Funding; *Tennessee Higher Education Commission

ABSTRACT

The Performance Funding Project of the Tennessee Higher Education Commission tc improve the current appropriations formula in Tennessee is discussed. The major project objective is to explore the feasibility of allocating some portion of state funds on a performance criterion, as compared to allocating funds solely on an enrollment criterion. It is assumed that funding will continue to be primarily based on enrollment, but that a complementary feature might be built into the formula to promote institutional diversity and improved instructional performance. Pilot projects were undertaken at 11 public colleges and universities. The first project year called for the development of institutional-wide instructicnal goals and associated indicators of perfcrmance and the second year for the acquisition of data on these performance indicators and the exploration of funding policies that might promote and reward effective performance. Some observations based on the first project year include: performance funding is a difficult ccncept to communicate; the possibility of statewide indicators of institutional performance was opposed by campus personnel, who also dislike campus-based indicators; faculty and administrators are concerned about the unintended outcomes of performance criteria funding like the possibility of punitive funding; arriving at goals and indicators that cut across departmental lines is difficult; faculties across Tennessee are very concerned about instructional performance; attention is being directed to what constitutes minimum competence for a college degree; and sets of goals and indicators seem to be taking on a unique character at each institution. An overview on formula funding is also included. (SW)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED181787

(R) P 4

ALLOCATION OF STATE FUNDS ON A PERFORMANCE CRITERION: ACTING ON THE POSSIBLE WHILE AWAITING PERFECTION

A CONTRIBUTED PAPER

FOR THE 1977 AIR FORUM

SUBMITTED BY

E. GRADY BOGUE, ASSOCIATE DIRECTOR FOR ACADEMIC AFFAIRS

TENNESSEE HIGHER EDUCATION COMMISSION

501 UNION, SUITE 300

NASHVILLE, TENNESSEE 37219

(615) 741-3605

WILLIAM E. TROUTT, ASSISTANT PROJECT DIRECTOR

TENNESSEE HIGHER EDUCATION COMMISSION

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

E. Grady Bogue

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

HE 012 174

Formula Funding: An Overview

In the United States, funds for public higher education are generally requested and allocated on the basis of an enrollment model or formula. Linking funds directly to the number of students served given their level and field of study has become educationally and politically acceptable.

Allocation formulae in most states represent an improvement upon earlier allocation models that relied primarily on an analysis of "per student" appropriations. These earlier allocation models were themselves an improvement over the preceding allocation method based on presidential lobbying for funds.

Objectivity, equity, and simplicity are strengths those favoring formula funding attribute to this approach. Formula funding has helped minimize political warfare and open competition among institutions for scarce funds. An appropriations formula provides state officials with a simple and understandable basis for deciding upon institutional appropriations requests. Equivalent support for equivalent programs is widely understood as the rationale for a formula approach to funding. Most formulae recognize the number of students enrolled and the mix of educational programs by type and level.

Soon after funding formulae were implemented, however, criticisms began to surface. Prominent criticisms include charges that appropriations formulae:

1. tend to impose a leveling effect upon the quality of educational programs. Using average costs for formula instructional rates tends to have a homogenizing effect on institutional diversity. The costs of an exceptional academic offering are averaged out by the costs of typical offerings of the same course by other

state institutions. Programs funded to be identical are continually reinforced to be identical regardless of the clientele served or the special character of the institution.

2. provide no incentive for improved instructional performance. Instructional rates are the same regardless of the effectiveness or ineffectiveness of instructional performance. The emphasis is on quantity rather than quality.

3. encourage a displacement of institutional goals. Serving students is displaced with the goal of obtaining more students. Formulae tend to become ends in themselves.

4. tend to utilize a linear approach which fails to recognize both economies of scale and plateaus of fixed or marginal costs. As a result, formulae are great during periods of enrollment growth since unit costs decline while revenues increase.

Coupled with these criticisms is the possibility that formula funding is ceasing to be an acceptable public policy. Hopefully, acceptable public policies express societal values. From the late fifties until the early seventies, higher education was growing and society wanted to encourage this growth. As an acceptable public policy, formula funding reflected society's willingness to support higher education's growth. Today, however, the public no longer sees the growth of higher education as a virtue in itself. As a result, a policy of funding public higher education solely on an enrollment basis may be viewed as out of harmony with the wishes of society.

Performance Funding

Like many other states, Tennessee employs an appropriations formula for public higher education that derives major cost projections from a credit hour matrix by level and field of study. Formula guidelines are also provided for general administration, maintenance and operation of physical plant, student services, and libraries.

The Performance Funding Project is an attempt on the part of the Tennessee Higher Education Commission, a statewide coordinating agency, to improve the current appropriations formula in Tennessee. Underwritten by grants from the Fund for the Improvement of Postsecondary Education, the Kellogg Foundation, and the Ford Foundation, the project represents a response to criticisms of the current formula and an opportunity for higher education to demonstrate publicly the effectiveness of instructional performance.

The major purpose of the project is to explore the feasibility of allocating some portion of state funds on a performance criterion, as compared to allocating funds solely on an enrollment criterion. The project assumes funding will continue to be primarily on an enrollment basis, but that a complementary feature might be built into the formula to promote institutional diversity and improved instructional performance.

Any alteration in funding policy must meet certain boundary conditions. Changes to the current allocation formula designed to promote effective performance must:

(1) be politically acceptable, i.e., easily understood and accepted by legislators and members of state government;

(2) be professionally acceptable, i.e., striking the right balance between the need for institutional autonomy and the need for state-level review;

(3) encourage institutions to exercise initiative in developing performance measures on which they might eventually be funded; and

(4) recognize differences in institutional role and environment and promote diversity.

The Performance Funding Project is completing its third year. The first two years were spent involving national and state-level higher education authorities in clarifying the conceptual base of the project, identifying related efforts underway around the country, outlining procedures for executing the project, and obtaining the necessary support for pilot projects.

The third year of the project has been devoted to pilot project activity. We decided early in the project to involve as many campus individuals as possible in thinking about altering funding policy to include performance as well as enrollment criteria. One reason for this decision was a belief that those individuals potentially affected by such a policy ought to have an opportunity to help shape that policy. A second reason was the belief that in such a complex policy issue having as many individuals as possible working on the issue would be advantageous.

In the spring of 1976, Tennessee public colleges and universities were invited to submit preliminary proposals for pilot projects that would ultimately result in a model for allocating some portion of state funds to their institution on the basis of performance. On the basis of these proposals, eleven public colleges and universities -- two research universities, six regional universities, and three community colleges -- were selected to develop pilot projects. Pilot projects extend over two years -- the first year calling for the development of institutional-wide instruc-

tional goals and associated indicators of performance and the second year for the acquisition of data on these performance indicators and the exploration of funding policies that might promote and reward effective performance.

Pilot projects vary in their approach, emphasis, level of sophistica- and background of project director, but they share a common set of expected outcomes. At the end of this first project year, each participating institution has been contracted with to produce (1) a set of institutional wide instructional goals, (2) a set of corresponding performance indicators, and (3) a report on how those goals and indicators were achieved. Some projects are using the Institutional Goals Inventory to reach consensus of institutional-wide instructional goals. Others are employing elaborate committee structures to arrive at instructional goal statements. Still others are using existing institutional goal statements as a vehicle for reaching consensus. The primary basis of some projects is in the faculties of the arts and sciences. Other projects primarily reside in professional schools. Two pilot projects represent attempts by professional schools to develop performance funding models that could be replicated throughout their respective institutions.

Pilot project directors share a common set of expectations, and they join the project staff in sharing a common set of challenges. Any effort exploring the possibility of linking two difficult problems -- funding policy for public higher education and assessment of instructional performance -demands great care and humility. The project rests on a number of debatable assumptions:

(1) that a complement to the current allocation formula could result in improved instructional performance; i.e., that the behavior of a public sector agency can be affected by economic re-

inforcement;

(2) that instructional effectiveness can be measured in terms of student outcomes;

(3) that some instructional outcomes can be quantitatively described;

(4) that acceptable measures of institutional-wide instructional performance can be developed or identified and agreed upon by both institutions and a state-level agency;

(5) that in a society with diffused aims, an institution can reach consensus on its fundamental purposes and make them explicit;

(6) that institutions fare better when their purposes are explicit;

(7) that rewarding a public sector agency for effective performance would be acceptable public policy;

(8) that performance funding should reward achievement rather than process;

(9) that performance funding should be for demonstrated performance, not proposed or promised performance; and

(10) that current allocation formulae impede institutional diversity.

After some time, debating these assumptions became counterproductive. The formula was not being improved, and legislators were continuing to ask hard, unanswered questions about the effectiveness of higher education. Progress in improving the formula or assessing the performance of higher education seemed unlikely to emerge from a rehearsal of the difficulties associated with such efforts. As a result, we proceeded with pilot project activity assuming it was better to act on a set of imperfect assumptions than to wait until a perfect set of assumptions was agreed upon. With that conviction, we plunged ahead into the first year of pilot project activity.

Lessons Learned

During the first year of pilot project activity, a number of lessons have been learned in exploring the feasibility of funding institutions on the basis of performance.

Lesson #1. Performance funding is a difficult concept to communicate. It has been misinterpreted in a variety of ways, e.g., funding of innovative approaches to instruction, funding for special institutional activities, etc.

Lesson #2. The possibility of statewide indicators of institutional performance is an anathema to campus personnel. Early in the project the possibility of developing a set of statewide indicators that all institutions could be assessed against was discussed. One campus administrator pointed out, though, that statewide indicators of performance "average out" institutional identity just as the current formula supposedly does since every institution would be assessed by a common standard.

Lesson #3. While campuses are reluctant to consider statewide performance indicators, they remain almost equally suspicious of campus-based indicators. This suspicion grows partly out of a concern that campus-developed indicators will not be equally rigorous. One faculty committee working on the Performance Funding Project asked why they should develop rigorous instructional goals when another institution might select a "straw-man" approach to goal setting and be rewarded more for less achievement. Suspicion also grows out of a concern that one department or college be singled out as solely responsible for certain instructional goals or outcomes, e.g., English department for communication competencies, philosophy department for critical thinking competencies.

Lesson #4. Faculty and administrators are concerned about the unintended

outcomes of a funding policy that would include performance criteria. The possibility of punitive funding, i.e., receiving less than one would on an enrollment basis because of poor performance, is a concern that continues to be expressed.

Lesson #5. Getting faculty to think in terms of institutional-wide goals and indicators is difficult. Individuals speak with ease about departmental goals and indicators but arriving at goals and indicators that cut across departmental lines is another matter.

Lesson #6. Our desire for institutional-wide instructional performance measures currently exceeds the technical capability of the assessment community. Several developmental efforts, however, by the American College Testing Program and the Educational Testing Service look promising.

Promising Findings

Coupled with some difficult and sometimes painful lessons learned during the past year have been some promising and encouraging findings.

Promising Finding #1. A great deal can be accomplished for relatively few dollars. For less than one hundred and fifty thousand dollars, eleven institutions have undertaken a serious look at their instructional goals and effects on students.

Promising Finding #2. Faculties across Tennessee are very concerned about instructional performance. They sense that funding solely in terms of number of students served has caused people to prostitute academic standards.

Promising Finding #3. Addressing the question of what constitutes effective instructional performance has led to a serious consideration of what constitutes minimum competence for a college degree. This became the

focal point of a statewide forum, sponsored by the Ford Foundation on minimal, essential skills and understandings that all college students ought to possess. At two institutions the development of instructional goals and associated indicators is centering on assuring certain minimal instructional outcomes.

Promising Finding #4. While some common goals and indicators are emerging from pilot project activity, sets of goals and indicators seem to be taking on a unique character at each institution.

Promising Finding #5. The Performance Funding Project is causing hundreds of faculty members and administrators to take a serious look at the effect they are having on students.

Promising Finding #6. A number of solutions have been found to questions that plagued the project in its inital stages. For instance, how can you have equal rigor in the assessment of achievement of goals when goals and performance indicators differ from campus to campus? One possibility would be to have a board of visitors provide an assessment of each institution's performance against its set of individually developed instructional goals. The assessment could, in turn, be translated into a factor to be used in allocating some small portion of the state allocation.*

Hopes for Next Year

Completing the first year of pilot project activity means each participating institution will have a set of instructional goals and a means of assessing performance on those goals. The second year involving gathering

*A number of hypothetical possibilities for funding on a performance basis are outlined in Case Studies in Performance Funding, available upon request from the Tennessee Higher Education Commission.

performance data and suggesting a means for incorporating performance measures into the current formula presents an even greater challenge. We remain undaunted, however, in our optimism for what the project may achieve.

Questions continue to haunt us. Pointing out problems is far easier than finding solutions. We continue, though, on the conviction that at worst we have brought people together across Tennessee to grapple with the issue of instructional effectiveness, and at best we may have come across a policy for funding a public sector agency on some means other than an analysis of activity.